



# CONTRACT LAW DIVISION

Office of Assistant General Counsel for Finance and Litigation

## A Lawyer's View of COTS Software Licenses

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### A Basic Primer on Software License Agreements

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With the advent of commercial item contracting, procurements for commercial-off-the-shelf (COTS) software appear to be at an all time high and COTS software purchases at the purchase order and contract levels are typically accompanied by software license agreements which the Government is expected to sign. This *Lawyer's View* is written to assist procurement officials in identifying issues and facilitating negotiations with the COTS software vendors over terms and conditions contained within those licenses.

#### What To Look For – Terms and Conditions Typically Found In a Commercial Software License Agreement.

The License. Keep in mind what the Government is actually purchasing. Typically, when the Government purchases COTS software, it is purchasing an irrevocable, paid-up, non-transferable license to use the software. This essentially means we can use the software for its intended purposes, but we do not own the source code, the object code, or anything proprietary to the commercial software vendor. Thus, licenses have language forbidding reverse engineering, decompiling, disassembly, etc. of the software.

Copies. Typically, the licensee (i.e. the Government) may make one copy for back-up or archival purposes. The license may also describe the number of users or seats which the license covers.

Taxes. Some licenses state that taxes (i.e. sales) are in addition to the contract price. As COTS software is typically purchased on a fixed price basis, hence commercial item purchasing, the price must be all-inclusive.

Payment. Most license agreements will have payment terms which call for payment on a net-30 day basis. Some clauses may also spell out an interest penalty associated with late payments. As Government contract invoice payments are controlled by statute, the Prompt

Payment Act ([31 U.S.C. 3903](#)) the vendor's clause may need modification to comport with Prompt Payment Act requirements.

Warranty and Disclaimers. This is the language which is usually in bold and typically limits the vendor's liability to the Uniform Commercial Code definition of warranties. [FAR §12.404](#) provides that the contractor warrants that the software is merchantable. That is, the Government expects software to generally perform for the particular purpose described in the contract.

Disputes. Occasionally, some licenses will have a clause stating that any dispute resulting from the license agreement will be resolved via ADR – alternative dispute resolutions, i.e. arbitration. This may or may not be acceptable. What the clause also will continue to say is that the results of the arbitration are binding upon the parties. Although the FAR allows binding arbitration, this is only if agency guidelines are in place. *See* FAR [§33.214 \(g\)](#). As of this date, no such guidelines exist at Commerce and therefore you cannot agree to binding arbitration. In the alternative, refer to the Disputes clause contained in [FAR §52.212-5](#).

Governing Law/Jurisdiction for disputes. COTS software vendors are located throughout the nation. Hence, if a vendor does not do a lot of business with the Federal Government, a typical license agreement may contain a clause which states that either the agreement will be construed using the laws of the state in which the vendor does business or that any dispute arising under the license agreement is subject to the jurisdiction of the laws of the state in which the vendor is incorporated. The clause may even state the specific court under which any dispute will be heard. Advise the vendor that the particular venue cited in the agreement must be replaced with “applicable Federal law.”

Indemnification. From time to time, vendors will have a clause which seeks indemnification from the licensee.

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Indemnification takes the following form: the licensee agrees to hold harmless or indemnify the licensor against any liability or damages, loss or expenses incurred as a result of any breach of the license and therefore the licensee agree to pay the licensor for any damages or liability caused by the licensee. The clause may also state that the licensee is liable for attorney's fees incurred by the licensor in pursuing its claim against the licensee. This clause violates the Antideficiency Act [31 U.S.C. § 1341](#) as it is an unlimited obligation in advance of appropriations and must be deleted.

Patent and Copyright Infringement. Vendors of COTS software typically agree to defend the licensee against any patent or copyright infringement claims brought against the licensee. So far so good. The problem exists, however, where the license continues to state that the claim will be defended only if the licensor is allowed to control the resulting litigation and any resulting settlement agreements. Patent or copyright infringement suits brought against the United States as a party may only be defended by the U.S. Department of Justice. [28 U.S.C. §516](#). A compromise around this clause is to allow the vendor reasonable participation in the defense of the litigation. The other alternative is to delete the clause all together.

Order of Precedence/Entire Agreement. This clause will state that the license agreement constitutes the entire agreement between the parties and that it supercedes all other agreements, i.e. the Purchase Order or Contract. Obviously, the Government needs to have its terms and conditions control. Therefore, be on the lookout for this clause, revise it accordingly, and incorporate the license agreement by reference in the Purchase Order or Contract.

Renewal Clause. Beware of automatic renewal language. Sometimes, COTS software is purchased with a separate line item for technical support. Some license agreements may contain provisions for automatic renewal of the technical support services regardless of what is specified in the Contract or Purchase Order, i.e. one year only. Although the mistake is discovered quickly when the Government receives an invoice after the Purchase Order or Contract has expired, the vendor

may argue that at least one invoice's worth of services (whether we used it or not) has been provided and therefore demand payment.

Audit Terms. If a license agreement allows the vendor to come onto the licensee's premises to ensure that the proper number of copies have been purchased, be cautious. Some Commerce bureaus have secrecy and confidentiality issues which should be considered. Also, do you really want the vendor snooping around your network or your hard drive? If possible, delete this clause. Remember all terms are generally negotiable.

Housekeeping Items. Some license agreements require that at the end of term, the software either be returned or destroyed with the licensee certifying to the destruction. The COTR or end-user should have a copy of the license agreement and be aware of the obligations contained therein.

### The FAR & Commercial License Agreements

So where and how does the FAR fit into these varied commercial software license agreements? The FAR appears to distinguish between those occasions when a contract requires the delivery or production of data to meet contract performance requirements, i.e. software development, and those occasions when the use of data requires the purchase of privately-developed, commercial software. For the former, the use of FAR [§52.227-14](#) (<http://www.arnet.gov/far/loadmain52.html>)(Data Rights General) is the appropriate clause which gives the Government Unlimited Data Rights – to use, display, reproduce, distribute any data first produced in the performance of the contract. On those other occasions where the Government is simply purchasing privately-developed, commercial software, the subject of this *Lawyer's View*, the FAR recognizes the contractor's proprietary interest in data or software developed from private investment. [§27.402](#). Thus, when the delivery of restricted rights software, i.e. existing COTS software, is required, FAR [§27.405](#) advises that although no specific FAR part 27 clause need be used that the contract or purchase order "specifically address the Government's rights to use, disclose and reproduce the software."

[§27.405\(b\)\(2\)](#). The FAR suggests the use of [§52.227-19 Commercial Computer Software–Restricted Rights](#) as the minimum rights the Government should accept. Greater rights can always be negotiated and incorporated into the contract or purchase order.

### Practical Tips and Advice

- Compare the terms of the license agreement to the terms and conditions of the accompanying Purchase Order or Contract ([FAR §52.212-4](#)) for conflicts and consistency.
- If another agency's GWAC or a GSA Schedule is used for purchasing the software and the vendor requires that a new license agreement be signed, the vendor may also insist that the license agreement not be changed as the terms and conditions have already been accepted by the Federal Government. Should this occur and you cannot agree on a specific term or condition, just refuse to sign. Most vendors, when faced with a Contracting Officer who insists that a clause is illegal, i.e. Antideficiency Act violation, quickly offer to delete an offending clause.
- Signatories. So who should sign the clause-ridden, provision-choking commercial software license agreement? Our advice is that the Contracting Officer sign it and that the end-user or COTR is provided a copy with instructions that he/she be familiar with the terms and conditions pertaining to use, copies, etc. If no purchase order is utilized, i.e. credit card purchase, the decision becomes simpler, the purchaser/end-user signs.